

KEEGAN WERLIN LLP

ATTORNEYS AT LAW
265 FRANKLIN STREET
BOSTON, MASSACHUSETTS 02110-3525

(617) 951-1400

TELECOPIERS:

(617) 951-1354

(617) 951-0586

August 22, 2006

Mary L. Cottrell, Secretary
Department of Telecommunications and Energy
One South Station, 2nd Floor
Boston, MA 02110

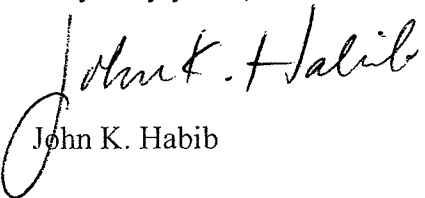
Re: NSTAR Gas Company, D.T.E. 06-44

Dear Secretary Cottrell:

Please find attached NSTAR Gas Company's Initial Brief in this proceeding.
Please contact me if you have any questions regarding the filing.

Thank you for your consideration and assistance in this matter.

Very truly yours,



John K. Habib

Enclosures

cc: Carol M. Pieper, Hearing Officer
Andreas Thanos, Assistant Director, Gas Division
Ken Dell Orto, Gas Division
Elizabeth Jackson, Gas Division
Jamie Tosches, Assistant Attorney General

COMMONWEALTH OF MASSACHUSETTS
DEPARTMENT OF TELECOMMUNICATIONS AND ENERGY

NSTAR Gas Company)
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D.T.E. 06-44

INITIAL BRIEF OF NSTAR GAS COMPANY

Cheryl M. Kimball, Esq.
John K. Habib, Esq.
Keegan Werlin LLP
265 Franklin Street
Boston, Massachusetts 02110
(617) 951-1400 (ph)
(617) 951-1354 (fax)

Dated: August 22, 2006

COMMONWEALTH OF MASSACHUSETTS

DEPARTMENT OF TELECOMMUNICATIONS AND ENERGY

NSTAR Gas Company

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D.T.E. 06-44

INITIAL BRIEF OF NSTAR GAS COMPANY

I. INTRODUCTION

On May 5, 2006, NSTAR Gas Company ("NSTAR Gas" or the "Company") filed with the Department of Telecommunications and Energy (the "Department") a request for approval under G.L. c. 164, § 94A of a long-term supply and long-term transportation assignment agreement with Northeast Energy Associates ("NEA"), a Limited Partnership (the "NEA Agreement"). Under the NEA Agreement, NSTAR Gas may purchase a flexible winter-service gas supply at Lambertville, NJ, which is an interconnection point between the Algonquin Gas Transmission, LLC ("Algonquin") system and the Texas Eastern Transmission Company ("Texas Eastern") system. In addition, the NEA Agreement provides that NEA will assign to NSTAR Gas an Algonquin AFT-1 X-35 transportation contract that will be used to deliver the gas from Lambertville to the NSTAR Gas system.

The Attorney General intervened in this proceeding pursuant to G.L. c. 12, § 11E. In accordance with a duly published notice, the Department held an evidentiary hearing on August 10, 2006. The record in this proceeding consists of 69 exhibits, including: (1) the prefiled testimony of Max A. Gowen and supporting documentation; and (2) the Company's responses to 48 information requests issued by the Department and the

Attorney General.

As discussed below, the record in this proceeding demonstrates that the NEA Agreement is consistent with the public interest because the NEA Agreement: (1) is consistent with the Company's portfolio objectives set forth in the Load Forecast and Resource Plan approved by the Department in NSTAR Gas Company, D.T.E. 05-46 (the "Supply Plan"); and (2) compares favorably on price and non-price factors to the range of alternatives reasonably available to the Company and its customers. Accordingly, the Department should approve the NEA Agreement.

II. DESCRIPTION OF NEA AGREEMENT

The NEA Agreement consists of two components (Exh. MAG-1, at 6). The first component will provide NSTAR Gas with a flexible winter-service gas supply at Lambertville, NJ (id.; see Exh. MAG-2(c) at 10 **CONFIDENTIAL**). The second component is an assignment by NEA to NSTAR Gas of an Algonquin transportation contract that will be used to deliver the gas from Lambertville to the NSTAR Gas system (Exh. MAG-1, at 6-7; Exh. MAG-2(c) at 11-12 **CONFIDENTIAL**).

The NEA Agreement is structured in two phases (Exh. MAG-1, at 7). The first phase is for the period April 1, 2006 through March 31, 2007, and does not require Department approval (id.; Exh. MAG-2(c) at 8 **CONFIDENTIAL**). The second (long-term) phase would commence on April 1, 2007, with the Department's approval of the proposed NEA Agreement (Exh. MAG-1, at 7; Exh. MAG-2(c) at 8 **CONFIDENTIAL**). If approved by the Department, the gas-supply portion of the contract would run from April 1, 2007 through March 31, 2012, and the assignment of the Algonquin AFT-1 X-35 capacity by NEA to NSTAR Gas would become permanent through November 30, 2016,

which is the termination date of NEA's underlying transportation contract with Algonquin (Exh. MAG-1, at 7; see Exh. MAG-2(c) at 8, 11-12 **CONFIDENTIAL**).

The gas-purchase portion of the NEA Agreement provides a winter-service supply up to a total contract quantity equal to 1,400 Billion British Thermal Units ("BBtu") (Exh. MAG-1, at 7; Exh. MAG-2(c) at 5, 8 **CONFIDENTIAL**). NSTAR Gas can nominate from 0 to 14,000 MMBtu on any day during the November through March winter season, up to the full contract quantity (Exh. MAG-1, at 7.; Exh. MAG-2(c) at 10 **CONFIDENTIAL**). As such, the NEA agreement constitutes a "virtual storage" arrangement (Exh. MAG-1, at 7). NEA will provide the virtual-storage service using a Dominion Transmission, Inc. ("DTI") GSS storage contract with a maximum daily contract quantity of 14,000 MMBtu and a total storage capacity equal to 100 days of service, a DTI FT-GSS transportation contract that provides firm transportation between the GSS storage fields and the Texas Eastern system, and a Texas Eastern FTS-5 transportation agreement that delivers the storage gas withdrawn from DTI to Algonquin at Lambertville, NJ (Exh. MAG-1, at 7). These resources are critical components of the resource path that will be relied on to make gas deliveries under the contract, and therefore, NSTAR Gas has retained the right to take permanent assignment of these components during the contract term should NEA decide to relinquish its rights to these resources (id. at 7-8; Exh. MAG-2(c) at 14 **CONFIDENTIAL**). The terms of the gas-purchase arrangement between NSTAR Gas and NEA generally track the terms in the underlying storage and transportation contracts held by NEA to service NSTAR Gas (Exh. MAG-1, at 8).

The cost of gas injected into storage each summer will be based on the average of

the Texas Eastern market area prices of gas for the seven-month, summer-injection season. NSTAR Gas will pay for the gas during the summer injection season (Exh. MAG-1, at 8; Exh. MAG-2(c) at 9 **CONFIDENTIAL**). During the winter withdrawal season, the Company will be able to nominate from 0 MMBtu/day to the full MDQ of 14,000 MMBtu/day (Exh. MAG-1, at 8; Exh. MAG-2(c) at 10-11 **CONFIDENTIAL**). Minimum and maximum withdrawal rights and obligations are set by the underlying DTI GSS tariff (Exh. MAG-1, at 8; Exh. AG-1-25 (Att.)). As a result of fuel shrinkage on the pipelines, the withdrawal of the maximum daily quantity of 14,000 MMBtu/day at the storage field will result in the delivery of 13,401 MMBtu/day at Algonquin take stations on the NSTAR Gas system (Exh. MAG-1, at 8). Specifically, the Company will be able to use the Algonquin contract to deliver the NEA gas to its take stations in the Framingham Division or to the Mendon, MA receipt point for the transportation contract recently acquired by NSTAR Gas from Dartmouth Power, approved by the Department in D.T.E. 05-47 (id.).

II. STANDARD OF REVIEW

In evaluating a gas utility's options for the acquisition of capacity or commodity resources, pursuant to G.L. c. 164, § 94A, the Department examines whether the acquisition of the resource is consistent with the public interest. Commonwealth Gas Company, D.P.U. 94-174-A at 27 (1996). To determine whether the acquisition is consistent with the public interest, the Department evaluates whether, at the time of the acquisition, the acquisition: (1) is consistent with the company's gas resource portfolio objectives; and (2) compares favorably to the range of alternatives reasonably available to the company and its customers. Id.

To determine whether a proposed resource compares favorably to the range of alternatives reasonably available to the company, the Department considers both price and non-price factors. With respect to price, the Department considers whether the pricing terms are competitive with those for the range of capacity, storage and commodity options that are available to the company at the time of the acquisition, as well as with those opportunities that are available to other local distribution companies in the region. *Id.* at 28. With respect to non-price factors, the Department considers whether the acquisition satisfies the company's non-price objectives, including, but not limited to, flexibility of nominations and reliability and diversity of supplies. *Id.* at 29.

III. THE NEA AGREEMENT IS CONSISTENT WITH THE PUBLIC INTEREST

As demonstrated by the evidence presented by the Company, the NEA Agreement is: (1) consistent with the Company's portfolio objectives set forth in its Supply Plan; and (2) compares favorably to the range of alternatives reasonably available to the Company and its customers.

A. The NEA Agreement Is Consistent With the Company's Supply Plan

The Company's Supply Plan for the forecast period 2005-06 through 2009-10 was approved by the Department on March 1, 2006, in NSTAR Gas Company, D.T.E. 05-46 (Exhibit MAG-1, at 8). The Company's Supply Plan demonstrates a need for: (1) incremental design-winter season resources beginning with the 2005-06 heating season; and (2) incremental design day resources for the 2006-07 season, to ensure sufficient city gate deliverability over the forecast period (*id.* at 8-9; Exh. AG-1-9 (Att.)).

The Company's design winter requirements are reflected in Table G-22D of the Company's Supply Plan (Exh. AG-1-9 (Att.)). Specifically, Table G-22D presents a comparison of resources and requirements during a design-year heating season (in BBtu) (Exh. MAG-1, at 9; Exh. AG-1-9(Att.)). The Table shows a need for 2,037 BBtu (or 2,037,000 MMBtu) of design-winter incremental supplies for the winter of 2006-07, increasing to 3,088 BBtu for the winter of 2009-2010 (Exh. MAG-1, at 9; Exh. AG-1-9(Att.)).

The NEA Agreement would help to meet the Company's design winter need for incremental resources (Exh. MAG-1, at 9). Specifically, the NEA Agreement provides up to 1,340 BBtu of incremental gas resources beginning with the 2006-07 winter season for the portion of the Company's service territory served by the Algonquin system (id.). This would reduce the Company's design-winter requirement for incremental citygate supplies by 1,340 BBtu, leaving 1,748 BBtu of incremental requirements to be addressed through the 2009-10 winter season (id. at 9-10; Exh. AG-1-22). Moreover, the NEA Agreement would provide the Company with valuable access to storage resources, which provide a high degree of flexibility in meeting customer needs during the winter season (Exh. MAG-1, at 10). Storage resources are not generally available in the market at this point in time, and without access to storage supplies, the Company would be required to purchase a baseload supply for the winter period (id.). This type of arrangement would afford far less flexibility and involve greater cost than the NEA Agreement (id.). Thus, the NEA supply is a major step in addressing the Company's projected design winter shortfall (id.).

The Company's design day requirements are reflected in Table G-23 of the Company's Supply Plan (Exhibit AG-1-9(Att.)). Table G-23 presents a comparison of resources and requirements during a peak day in the heating season (in BBtu) (Exh. MAG-1, at 11; Exhibit AG-1-9(Att.)). Table G-23 shows a need for 4,860 MMBtu/day of design day incremental capacity beginning in the winter of 2006-07, increasing to 19,800 MMBtu/day by the winter of 2009-10 (Exh. MAG-1, at 11; Exhibit AG-1-9(Att.)).

In addition to helping the Company meet its design-winter needs, the NEA Agreement will help the Company to meet its design-day needs. The NEA Agreement will add 13,401 MMBtu/day of firm deliverability on the design day (Exh. MAG-1, at 11). This will satisfy the Company's design-day requirements through the 2007-08 winter season and will reduce the design-day shortfall through the 2009-10 winter season (*id.*; Exh. AG-1-22). Accordingly, the Company has demonstrated that the NEA Agreement is consistent with its Department-approved Supply Plan.

B. The NEA Agreement Advances the Company's Portfolio Objections In Additional Ways.

The NEA Agreement also provides the Company with benefits other than those provided by meeting the Company's incremental volumetric requirements over the forecast period. In addition to providing a low-cost resource compared to available alternatives, the NEA Agreement provides the Company with valuable flexibility during the winter season (Exh. MAG-1, at 12). During the winter season, the Company will be able to nominate an amount from 0 to the full MDQ of 13,401 MMBtu/day at its Algonquin gate stations, based on short-term weather forecasts and load condition (*id.*). The ability to vary nominations from firm pipeline sources on a daily basis in the winter

in response to changing weather conditions is very important in serving the NSTAR Gas load (id.).

In addition, the availability of the 100-day virtual storage service will relieve some of the existing strain on other flexible storage contracts held by the Company on the Texas Eastern/Algonquin system, which currently provide only 60 to 70 days of service (Exh. MAG-1, at 12). The NEA storage service will make it easier for the Company to avoid storage ratchets late in the withdrawal season (id.).

The fact that the NEA Agreement includes incremental firm transportation capacity on the Algonquin system to NSTAR Gas take stations provides an even greater benefit to the Company and its customers (Exh. MAG-1, at 12). All of the other gas-supply alternatives evaluated in the Company's July 2005 Request For Proposals ("RFP") would be delivered to Mendon and required the use of the Dartmouth capacity to be transported to NSTAR Gas's New Bedford stations (id. at 12-13). However, by comparison, the NEA gas would be delivered and available to the NSTAR Gas system at a number of take-stations in the Framingham division (id.).

Thus, in the short term, the NEA supply would be directly delivered to Framingham division take stations (Exh. MAG-1, at 13). In the longer term, as firm loads grow on the NSTAR system, additional winter service supplies can be purchased at Mendon (up to the full 14,010 MMBtu of the Dartmouth capacity) or at other Algonquin take-stations and the Dartmouth capacity would be fully utilized to deliver either Mendon supplies or displaced LNG from Hopkinton to the New Bedford division (id.).

If the NEA Agreement were not approved, the Company would need to procure a 151-day winter (baseload) supply to ensure deliveries of 14,000 MMBtu/day to Mendon,

MA (to serve the New Bedford division), plus up to 12,200 MMBtu/day of additional citygate purchases by the 2009-10 winter season (Exh. MAG-1, at 13). In this scenario, the Company would be locked into a winter baseload supply of up to 26,200 MMBtu/day (rather than having 14,000 MMBtu/day available through a more flexible storage-type arrangement) (*id.*). Relying on this level of winter baseload supply would create concerns from an operational perspective because the requirement to take this amount of baseload supply in early November and late March could mean that the Company must displace lower-cost flowing supplies in order to do so (*id.*). With the NEA Agreement in place, only a total of 13,000 MMBtu/day of winter service would be required and the NEA virtual-storage service would be nominated only on the days when it was needed and would be available in conjunction with the Company's other Algonquin-system storage contracts to avoid storage ratchets and maintain high withdrawal MDQs (*id.* at 13-14). Accordingly, the NEA Agreement provides the Company with benefits beyond those realized by providing incremental volumetric resources to meet the Company's needs through 2010.

C. The NEA Agreement Compares Favorably to the Range of Alternatives Reasonably Available to the Company and its Customers.

1. The NEA Agreement Compares Favorably to Available Alternatives Based on Cost Considerations.

The Company has demonstrated that the NEA Agreement compares favorably to available alternatives regarding cost considerations. On July 8, 2005, NSTAR Gas issued a RFP, in which the Company solicited offers to provide a winter-service gas supply for the 2005-06 peak season, but also suggested that the potential bidders consider offering longer-term supplies that would be considered by NSTAR Gas, subject to the

Department's approval of the long-term assignment of the Dartmouth capacity (Exh. MAG-3).

In response to the RFP, the Company received 28 proposals from 11 bidders (Exh. MAG-1, at 14). Of the 28 proposals, 27 offered deliveries at Mendon for periods of time ranging from one to five years (*id.*). NEA was the only party that offered an extended supply contract (six years), along with rights to firm capacity on the Algonquin system, which is currently fully subscribed (*id.*). Because of the inclusion of the Algonquin capacity, the NEA supplies can be delivered to Mendon or to several other take stations on the NSTAR Gas system (*id.*). This unique feature positioned the NEA Agreement as a superior alternative over the long run.

The Company compared price attributes of its bids by performing a preliminary cost analysis using a simple spreadsheet approach (Exh. MAG-1, at 15). The Company followed this up with simulations of the primary alternatives using the SENDOUT optimization model to determine the best alternatives from an overall portfolio perspective (*id.*; Exh. MAG-4 **CONFIDENTIAL**; Exh. MAG-5 **CONFIDENTIAL**; Exhibit MAG-6 **CONFIDENTIAL**). The Company's analysis used the cost parameters provided in the NEA Agreement, as well as a NYMEX strip for developing the costs associated with the injection of gas into the storage contract and the calculated costs of delivered storage gas during the winter withdrawal seasons (Exh. MAG-1, at 15; RR-AG-1). The Company's analysis demonstrated that that the NEA winter service was less than the delivered cost of the lowest-cost Mendon supply options (Exhibit MAG-6 **CONFIDENTIAL**).

The Company's modeling started with the results of its Supply Plan, which indicates that over the five-year forecast period, the Company will require incremental gas supplies in excess of the amount sought through the RFP (because the RFP was aimed primarily at procuring a supply resource for the Dartmouth capacity) (Exh. MAG-1, at 16). Therefore, in modeling the alternatives, the Company assumed that any supply required over and above the RFP amount would be modeled as a 151-day baseload winter service rather than a storage arrangement since underground storage service is not generally available in the market at this point in time (id.). In addition, the design-winter analyses identified the quantities of incremental winter-service gas that would be needed in the outer years of the forecast period in order to limit winter-season spot purchases to less than 0.5 Bcf (id.).

The Company then modeled the NEA proposal for the five-year forecast period with the same underlying assumptions used for the alternatives (i.e., maintaining spot purchases at less than 0.5 Bcf) under design-winter conditions (Exh. MAG-1, at 16). However, the Company's analysis also accounted for the fact that the NEA offer provides a 100-day winter supply (rather than 151-day), and therefore, the amount of incremental winter-service gas required under the NEA alternative is slightly greater than the most favorable Mendon alternative (id.). The Company then analyzed the two alternatives under normal winter conditions and compared the total system costs (id.).

The Company's analysis indicated that the NEA proposal was the most economical supply option available as a result of the RFP solicitation (Exh. MAG-1, at 17). Over a four year period from November 2006 through October 2010, the NEA alternative was approximately \$3.9 million less expensive than the best Mendon supply

alternative and about \$3.0 million less expensive on a net present value basis (Exh. MAG-7 **CONFIDENTIAL**). Accordingly, the Company demonstrated that the NEA Agreement compared favorably to the most favorable Mendon supply alternative based on cost considerations.

2. The Agreement Compares Favorably to Available Alternative Resources Based on Non-Cost Factors.

The NEA Agreement also compares favorably to the Mendon supply alternatives based on non-price factors. The most important non-price consideration is the very substantial increase in portfolio flexibility available as a result of the arrangement (Exh. MAG-1, at 18). Instead of securing a supply that is only available at Mendon (and that must utilize the Dartmouth capacity), NSTAR Gas was able to obtain a resource that includes a combination of supply and incremental capacity, and therefore, provides the flexibility to deliver up to 13,401 MMBtu/day on a firm basis to a variety of points on the NSTAR Gas system (id.).

The NEA supply may be delivered to the Framingham Division, with displaced LNG supplies being used to serve the New Bedford division through the Dartmouth capacity (rather than delivering the NEA gas to the New Bedford division on the Dartmouth capacity) (Exh. MAG-1, at 18). Without the NEA supply, the Mendon supplies would have to use the Dartmouth capacity to be delivered to New Bedford, providing NSTAR Gas with less flexibility (id.). In the longer term, additional winter supplies can be purchased either at Mendon, and delivered on a firm basis to the New Bedford division, or at Algonquin gate stations, which would allow displaced LNG from Hopkinton to be used to meet design-day requirements for the New Bedford division (id.

at 18-19).

In addition, the possible assignment to NSTAR Gas of NEA's DTI and Texas Eastern contracts (the "Upstream Components") to provide service at Lambertville is a substantial benefit to the NEA Agreement. The Upstream Components are critical elements of the resource path that will be relied upon to meet incremental design-season and design-day needs on the NSTAR Gas system (Exh. MAG-1, at 19). To maintain the reliability of the overall gas supply, NSTAR Gas determined that it was necessary to obtain the right to take permanent assignment of these valuable resources in the event that NEA decided to exit the merchant function (id.).

Under the terms of the NEA Agreement, NEA must offer NSTAR Gas the opportunity to take a permanent assignment of the Upstream Components in the event that it seeks to relinquish its rights to the underlying contracts during the contract term (Exh. MAG-1, at 20; Exh. MAG-2(c) at 14 **CONFIDENTIAL**). This is a key feature of the NEA Agreement because, in addition to ensuring the long-term reliability of the NEA supply, the Upstream Components are very valuable to NSTAR Gas and its firm customers (Exh. MAG-1, at 20). The GSS storage contract is a low cost, flexible, and reliable storage contract with access to the pipelines that provide service to NSTAR Gas (id.). The DTI GSS storage service is the most attractively priced storage service available in the Northeastern United States (id.). The Texas Eastern FTS-5 contract has a lower cost than more recent incremental transportation contracts constructed in the area and is likely to be lower in cost than subsequent incremental expansions from DTI to the Algonquin system (id.). Because NEA is utilizing these resources to provide the virtual storage service to NSTAR Gas, the cost of the Upstream Components is incorporated into

the contract price of the NEA Agreement (and the comparative analysis performed by the Company for this proceeding) (id.; Exh. AG-2-11 (Supplemental))[CONFIDENTIAL]).

As a result, if NSTAR Gas were to need to take a permanent assignment of the Upstream Components, it would have the effect of reducing costs to NSTAR Gas and its customers (Exh. MAG-1, at 21; Exh. DTE-1-4; Exh. AG-2-11 (Supplemental))[CONFIDENTIAL]; Tr. 1, at 61-64). This is because the rates paid by NSTAR Gas for the capacity include the FERC approved, as-billed rates pipeline charges for the underlying upstream facilities and a modest storage management fee and fuel surcharge, both of which would be eliminated if NSTAR Gas were to assume control of the Upstream Components. (Exh. MAG-1, at 21; Exh. AG-2-11 (Supplemental))[CONFIDENTIAL]). Therefore, the effect of the permanent assignment would be to eliminate NEA as a "middle man," thereby reducing costs by the NEA margin included in the current arrangement (Exh. MAG-1, at 21). Accordingly, in comparison to the Mendon supply options that were offered to NSTAR Gas in response to its July 2005 RFP, the NEA Agreement will provide even greater savings for the Company's customers, if NSTAR Gas were permanently assigned the Upstream Components. Therefore, the NEA Agreement is more favorable to the Company's customers than the most favorable Mendon supply alternative.

IV. CONCLUSION

As discussed above, the NEA Agreement is consistent with the Company's established portfolio objectives. Moreover, the NEA Agreement compares favorably to the range of alternatives reasonably available to the Company and its customers based on both price and non-price factors. Accordingly, the NEA Agreement represents a cost-

effective means for the Company to meet its ongoing service obligations to customers and should be approved by the Department as in the public interest.

WHEREFORE, the Company respectfully requests that the Department:

VOTE: That the NEA Agreement: (1) is consistent with the portfolio objectives established in the Company's Supply Plan, approved by the Department in NSTAR Gas Company, D.T.E. 05-46; and (2) compares favorably to the range of alternatives reasonably available to the Company and its customers; and

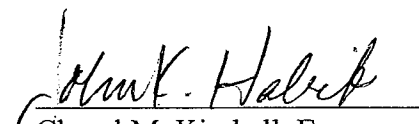
ORDER: That the NEA Agreement is in the public interest and is approved; and

FURTHER ORDER: Such other approvals as may be necessary or appropriate.

Respectfully submitted,

NSTAR GAS COMPANY

By its attorneys,


Cheryl M. Kimball, Esq.
John K. Habib, Esq.
Keegan Werlin LLP
265 Franklin Street
Boston, Massachusetts 02110
(617) 951-1400 (ph)
(617) 951-1354 (fax)

Dated: August 22, 2006